Q&A: How the Biomass Industry Can Take Advantage of New Market Tax Credits

We talked to Charlie Spies, CEO of CEI Capital Management based in Portland, Maine, to learn more about how potential biomass projects can take advantage of New Market Tax Credits.

Please tell us about New Market Tax Credits, how they work, and how the biomass industry can take advantage of them.
New Market Tax Credits, equal to 39 percent of the total eligible project investment realized over a seven-year compliance period, provide incentives for private investors to fund projects that create or preserve jobs and diversify economies in distressed communities. Over the last ten years, this credit has proven to be an effective, targeted and cost-efficient financing tool valued by businesses, communities and investors across the country, including the biomass industry.

The economic benefits from New Markets Tax Credits financed projects ripple through the rural community where they are located. These tax credits provide incentives for private investors to fund projects that create or preserve jobs and diversify economies in distressed communities. The program was created by Congress to increase the flow of capital to businesses and low-income communities. Investments are largely limited to projects in census tracts where the individual poverty rate is at least 20 percent or where median family income does not exceed 80 percent of the area median. Biomass project developers need to meet these thresholds to move ahead.

Businesses that span the biomass value chain are using this program to attract outside capital to finance their capital projects, expansions and major equipment purchases. As a result these businesses create direct and indirect jobs in local logging, sustainable tree farming, lumber, sawmill, and transportation industries through to biomass power plant operations.

What about the biomass industry makes it a particularly good candidate for NMTC and/or private investment?
Biomass projects tend to fit the scale requirements for New Markets Tax Credits in that capital costs often exceed $8 to $10 million so the economics really begin to look favorable for the borrowers. The asset type is helpful as well if the investment is focused on construction of the production facility or major equipment purchases.

At CEI Capital Management we manage the New Markets program according to the mission of our parent, CEI: to create economically and environmentally healthy communities in which all people, especially those with low incomes, can reach their full potential. The triple bottom line aspects of biomass align well with ours and many other CDE's mission strategy by allowing job creating projects to be located in highly distressed communities (often rural in the case of biomass) and where reduced hazardous waste and/or carbon emissions can be quantified.

Are there any NMTC biomass success stories that you'd like to highlight?
Across the nation new forest-based enterprises are coming on line with financial support from New Markets Tax Credits every day. The result is re-invention and job creation within the supply chain of an age-old industry: growing new forests, sustainably harvesting and

moving the timber, and then processing it in 21st century ways by breaking down the trees into fiber and even into molecules with a variety of potential uses. The biomass industry is leading this transition.

- In rural Berlin, NH the new Burgess Biomass plant is coming online, a milestone in the evolution of the region's forest-based economy. The plant is built on the site of a defunct paper mill, where it will produce 75 megawatts of power, sustain 27 jobs in management and plant operations, plus spur hundreds more jobs in the woods associated with harvesting and transporting biomass. The project received $74.7 million in New Markets Tax Credit allocation, which attracted private investors to participate in the project.

- New Markets Tax Credits helped Westervelt Company to fund a new wood pellet manufacturing plant in rural Alabama, where nearly half the population lives in poverty and unemployment is greater than ten percent. The plant will produce 280,000 metric tons of wood pellets for use as an alternative fuel source around the world. This project has so far created 55 permanent jobs while assuring demand for locally produced pulpwood as well as the people that harvest and transport that wood.

- In Michigan, American Process Inc. (API) used New Markets Tax Credits to build and operate a cellulosic ethanol bio-refinery in the economically challenged port town of Alpena. The API process utilizes hemicellulose extract from an adjacent hardboard mill, which previously was treated and discharged as a waste stream. The arrangement provides benefits to both API and the hardboard mill. This technology has replication potential in pulp mills, biomass power plants as well as other industries. The API project aims to prove the economics of using cellulosic biomass as the feedstock for ethanol and other products, which have previously come from petroleum.

If a biomass developer wanted to take advantage of NMTC, what are the steps you'd recommend taking?

A good place to start is with some research to make sure your project meets the basic program requirements. Start with the US Treasury's website which, while dry, has IRS and program regulations, a list of Community Development Entities (CDE) and other important information. Once you find a CDE operating in your area, try connecting directly to better understand their strategic direction and how it aligns with your project profile. For instance, at CEI Capital Management our focus is on rural communities and we have a specialty in forest product industries. Once you determine if New Markets Tax Credits might be a fit we strongly recommend that you identify a qualified tax lawyer or CPA with demonstrated New Markets transactional experience to help guide you. This will save time and money if you enter into a New Markets transaction.